

**PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COMMISSION DIRECTIVE**

ADMINISTRATIVE MATTER

☐

DATE

May 01, 2019

MOTOR CARRIER MATTER

☐

DOCKET NO.

2018-319-E

UTILITIES MATTER

☒

ORDER NO.

**THIS DIRECTIVE SHALL NOT SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE;
SUCH ORDER SHALL BE ISSUED AS WRITTEN ORDER NO. 2019-323**

SUBJECT:

DOCKET NO. 2018-319-E - Application of Duke Energy Carolinas, LLC for Adjustments in Electric Rate Schedules and Tariffs - Staff Presents for Commission Consideration Duke Energy Carolinas, LLC's Application for Adjustments in Electric Rate Schedules and Tariffs.

COMMISSION ACTION:

Amended Directive is being issued due to scriveners error regarding rate case expenses.

Docket No. 2018-319-E is the Application of Duke Energy Carolinas, LLC, for Adjustments in Electric Rate Schedules and Tariffs and a Request for an Accounting Order.

In Docket No. 2018-319-E, Duke Energy Carolinas ("DEC") seeks an increase in electric rates and charges. The utility's initial application included a request for a \$231 million rate increase and a return on equity ("ROE") of 10.50%.

We heard compelling testimony from the Company's customers at public hearings held in Spartanburg, Anderson, and Greenville. The parties presented extensive testimony and evidence at the merits hearing beginning on Thursday, March 21 and concluding on Wednesday, March 27, 2019.

The most contentious request proposed by Duke Energy Carolina was their initial request to increase all customers monthly Basic Facilities Charges. The Company had initially proposed raising the monthly BFC for residential, non-time-of-use customers from \$8.29 to \$28.00. The Company also proposed similar BFC increases for residential customers and small general service customers. While Duke Energy Carolina later agreed to lower the Basic Facilities Charge to \$11.96 for residential non-TOU customers, \$13.09 for residential TOU customers and \$11.70 for SGS customers, the CEO and executive team demonstrated they were "tone deaf" as to how a 238% increase in the Basic Facilities Charge would have negatively and adversely impacted the elderly, the disabled, the low income and low use customers. It is one of the reasons I am recommending a 75% disallowance of the CEO's excessively high executive compensation for South Carolina during test year 2017 and a 50% disallowance for the next three highest Company executives. High fixed charges would also have discouraged customer investments in energy efficient appliances as well as customer incentives to make their homes more energy efficient. High fixed charges would also discourage customers from investing in solar panels. These high fixed charges would also have reduced customer control of their electric bills even if they use less power, which could lead to increased energy consumption. Such extreme fixed rate increases violate the statutory standard of just and reasonable rates. ORS supports the reduced Basic Facilities Charges and I move we adopt the reduced rates.

The parties presented to the Commission 38 accounting adjustments, 15 of which were contested. After careful consideration of the entire record, including voluminous testimony and exhibits presented by the utility, the Office of Regulatory Staff, and the six participating intervenors, I move that we implement the following:

1. Disallow a return on deferred Operation and Maintenance expenses and approve ORS's proposed amortization periods for accounting deferrals;
2. Disallow recovery of \$802,033 in Operation & Maintenance ("O&M") Expenses, including \$575,000 in expenses incurred in connection with insurance litigation and \$227,033 in nonallowable expenses;
3. Disallow 75% of the South Carolina allocation of Duke Energy CEO Lynn Good's excessively high executive compensation during the 2017 test year as well as 50% of the excessive executive compensation for the Company's next three highest executives. We accept the Company's adjustment to normalize O&M labor expense and adjust O&M for executive compensation.
4. Disallow recovery of \$469,894,472 on a system-wide basis allocated proportionately to South Carolina associated with the incremental increase in coal ash remediation and disposal costs related to North Carolina's Coal Ash Management Act ("CAMA");
5. Disallow any return on pre-construction costs associated with the canceled Lee Nuclear Project;
6. Disallow recovery of a reserve for an 'End of Life Nuclear Fund' because it is premature as these costs are unknown and uncertain;
7. Reject DEC's proposed amortization periods of three (3) years for Carolinas West Control Center, Lee Combined Cycle, and South Carolina Advanced Metering Infrastructure and adopt ORS's recommended thirty (30), thirty-nine (39), and fifteen (15) year amortization periods, respectively;
8. Allow approximately \$1,339,000 in rate case expenses, amortized over five years, which limits the Company's recovery of certain rate case expenses to those that were sufficiently supported with documentation which disallows approximately \$512,000 and those expenses that do not contain estimates or forecasts which disallows approximately \$2,000,000. Further, we exclude from rate base the unamortized balance of rate case expenses.
9. Accept the Company's calculation of the Excess Deferred Income Tax ("EDIT") Rider and adopt ORS's recommendation to review the changing Average Rate Assumption Method rate related to protected EDIT to ensure it is correctly calculated in future periods.
10. Adopt the remaining adjustments as recommended by ORS.
11. The Company is, by law entitled to a reasonable rate of return on its allowable costs but it has no right to earn profits comparable to highly profitable enterprises or speculative ventures. We have carefully reviewed the testimony and evidence related to the appropriate return on equity ("ROE"). DEC witness Hevert recommended 10.75% with a range of 10.25% to 11.25%. But on cross examination, Hevert acknowledged that DEC is, in fact, a less risky company today than it was in 2014 when this Commission granted a 10.2% ROE.

Walmart witness Tillman testified that 9.76% is the national average of approved ROEs in 111 vertically-integrated electric utility rate cases decided over a three-year period from 2016 through 2018.

ORS witness Parcell employed three recognized methodologies, the DCF, the CAPM and the Comparable Earnings, to find an appropriate range of 9.1% to 9.5% ROE. I recommend the Commission adopt the high end of Parcell's range by setting the ROE at 9.5%.

With a capital structure reflecting 47% debt and 53% equity, an ROE of 9.5% results in a revenue increase of approximately \$106,931,000.00 representing a 54% decrease from the Company's original request. I move that we instruct the Company to prepare a proposed tariff conforming to our findings.

The Commission will file a formal written order which incorporates its complete findings of fact and conclusions of law.

PRESIDING: RandallSESSION: Regular

TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
BELSER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
ERVIN	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
HAMILTON	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
HOWARD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
RANDALL	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
WHITFIELD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
WILLIAMS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

(SEAL)

RECORDED BY: J. Schmieding